Background on:

- **Certificate of Necessity/Integrated Resource Plans**
- **Renewable Energy and Energy Optimization Standards**

Michigan House of Representatives

Energy Policy Committee

April 15, 2015

Michigan Public Service Commission

Department of Licensing and Regulatory Affairs

Certificate of Necessity

- Sec. 6s of PA 286 allows utilities to voluntarily file for Certificate of Necessity (CON) for construction of new generation, upgrade or purchase of existing generation, or long-term power purchase agreement.
  - $500 million or more for large utilities
  - No recovery of costs associated with environmental upgrades, renewable energy projects
- MPSC, after contested case, must issue order approving or denying request within 270 days of application.

MPSC Review Criteria

- Need for resource has been demonstrated through IRP.
- Resource will comply with all applicable state and federal environmental standards, laws, and rules.
- The estimated cost of power from the proposed resource is reasonable.
  - Cost to be found reasonable to the extent that estimated costs for engineering, procurement, and construction contracts or power purchase agreements are competitively bid.
- Resource represents the most reasonable and prudent means of meeting the power need relative to other resource options for meeting power demand, including energy efficiency programs and electric transmission efficiencies.
- To the extent practicable, the construction or investment in proposed resource is completed using a workforce composed of Michigan residents.

Benefits of CON Process

- Provides utility with pre-approval of costs for generation additions
  - Allows for better financing terms, resulting in lower costs for ratepayers
- Provides ratepayers with assurances that project is "most reasonable and prudent" option
  - Higher standard than for traditional power plant cost recovery
- Assures that proposed generation is the best addition to utility's resource mix
  - Integrated Resource Plan

Integrated Resource Plan

Sec. 6s of PA 286 outlines IRP requirements, including:

- A long-term forecast of the electric utility's load growth under various reasonable scenarios.
- The type of generation technology proposed for the generation facility including projected fuel and regulatory costs under various reasonable scenarios.
- Projected energy and capacity purchased or produced by the electric utility pursuant to any renewable portfolio standard.
- Projected energy efficiency program savings under any energy efficiency program requirements and the projected costs for that program.
- Projected load management and demand response savings for the electric utility and the projected costs for those programs.
- Electric transmission options for the electric utility.

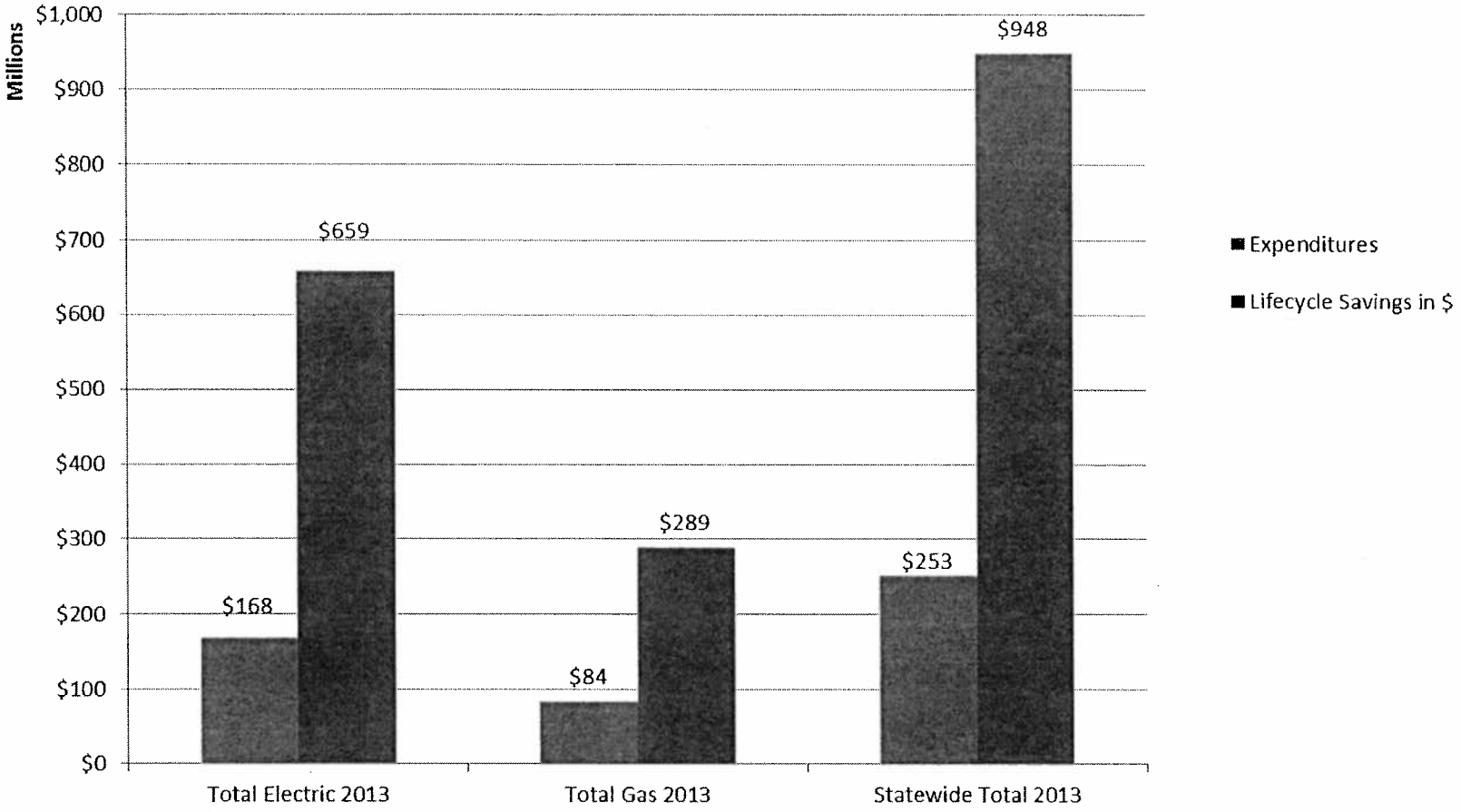
CON Filings to date...

- Indiana Michigan Power filed a CON in April 2012 for D.C. Cook nuclear plant "life cycle management" project
  - MPSC granted the CON for $851 M on January 28, 2013
- Consumers Energy filed a CON in July 2013 for a new 700 MW, $750 M natural gas combined cycle plant (Thetford plant)
  - Filing withdrawn January 2014 due to an RFP resulting in acquisition of Jackson NG Plant for $250 M

Energy Optimization Standard

- PA 295 requires all natural gas and electric utilities in the state to implement programs to annually reduce overall energy usage by specified targets.
  - Electric Utilities – 1.0% of retail sales
  - Natural Gas Utilities – 0.75% of retail sales
- Goal is to reduce the future costs of gas and electric service to customers.
- In 2013, $948 million in lifecycle customer savings for $253 million in spending.

Statewide EO Impact
2013



Benefit-Cost Test

- Compares costs to run EO program with the benefits that accrue from improved energy efficiency.
- Costs:
  - Primarily include rebates/incentives to customers
  - Do not include out-of-pocket costs to customers for purchases
- Benefits:
  - Primarily include avoided cost of fuel that is not purchased, as well as avoided cost of additional generation capacity
    - Reduces cost of service for ALL utility system customers
  - Do NOT include environmental, or other societal benefits
  - Do NOT include savings on individual customer utility bills

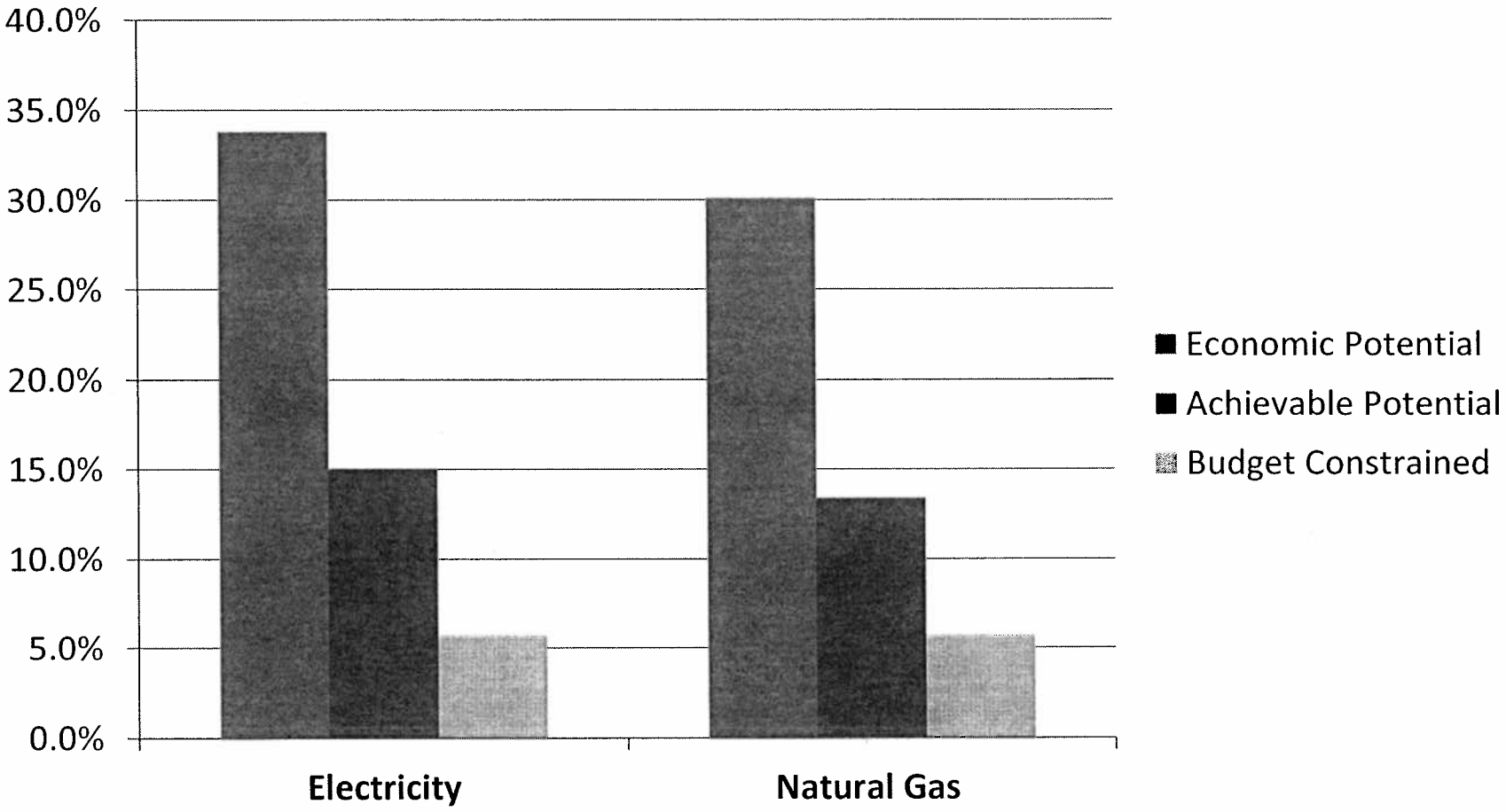
How do we know it works?

- Evaluation, measurement, and verification to ensure the energy savings are real and both the utility and its customers save money
  - Independent, third-party evaluator
  - Audits/field tests
    - Ensure measures have been installed and are in use
  - Account for "free riders"
    - Use statistical methods to avoid counting customer purchases that would have been made even without a rebate/incentive towards energy savings

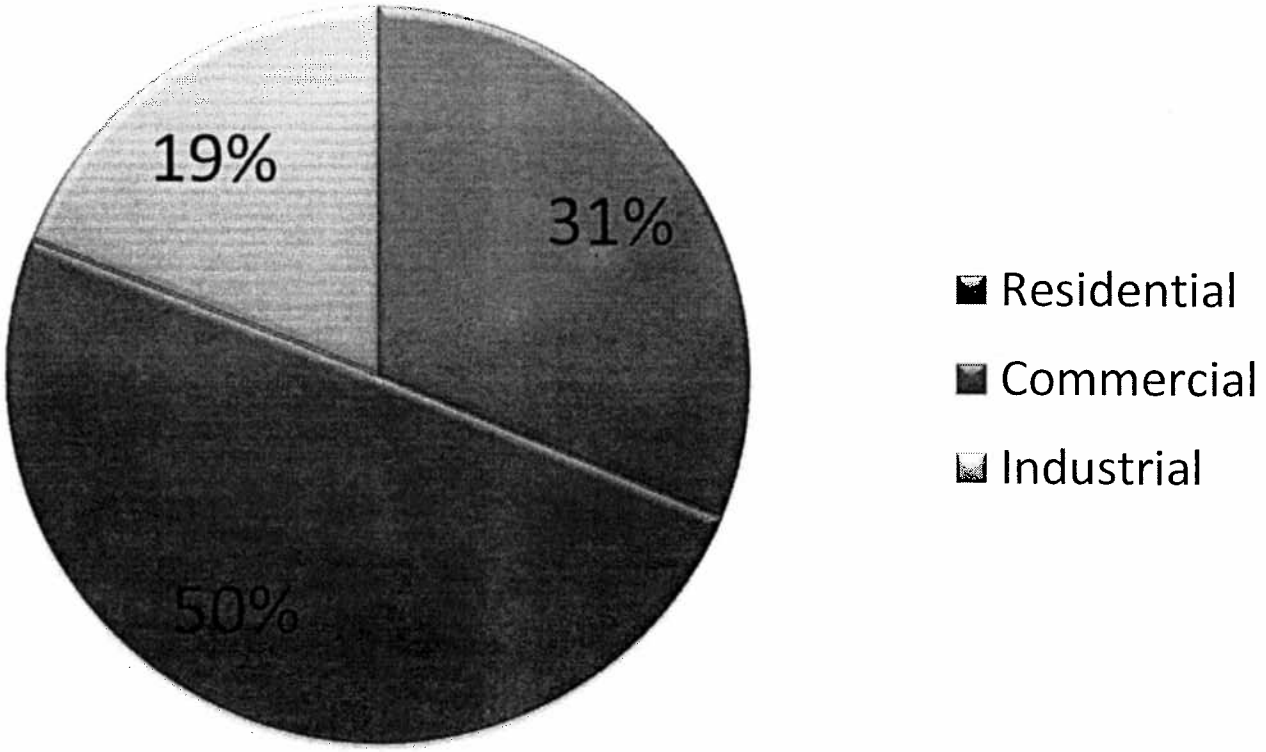
Can we do more?

Energy Efficiency Potential – Natural Gas and Electricity

Cumulative over 10-year period (2014-2023)



Proportion of Achievable Electric Energy Savings Potential by Class



Renewable Energy Standard

Applies to all Michigan electric providers (including investor owned, cooperative and municipal utilities and alternative electric suppliers)

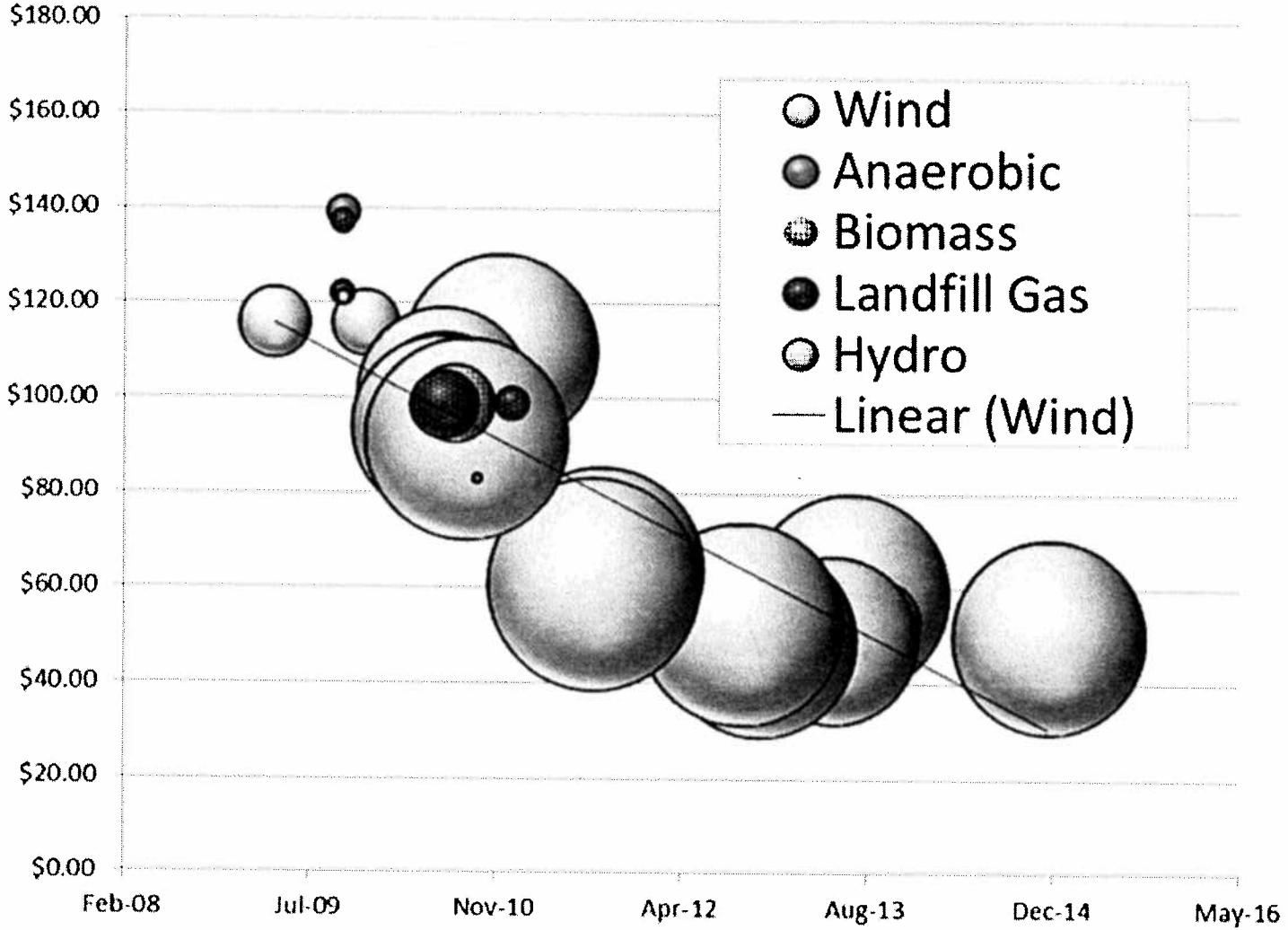
- 10 % by 2015.
- Interim targets in 2012, 2013 and 2014.
- Electric providers are meeting these requirements through the purchase and/or production of Renewable Energy Credits (RECs).

Renewable capacity targets in addition to REC requirements for DTE Electric and Consumers Energy.

Renewable Energy Surcharge Caps

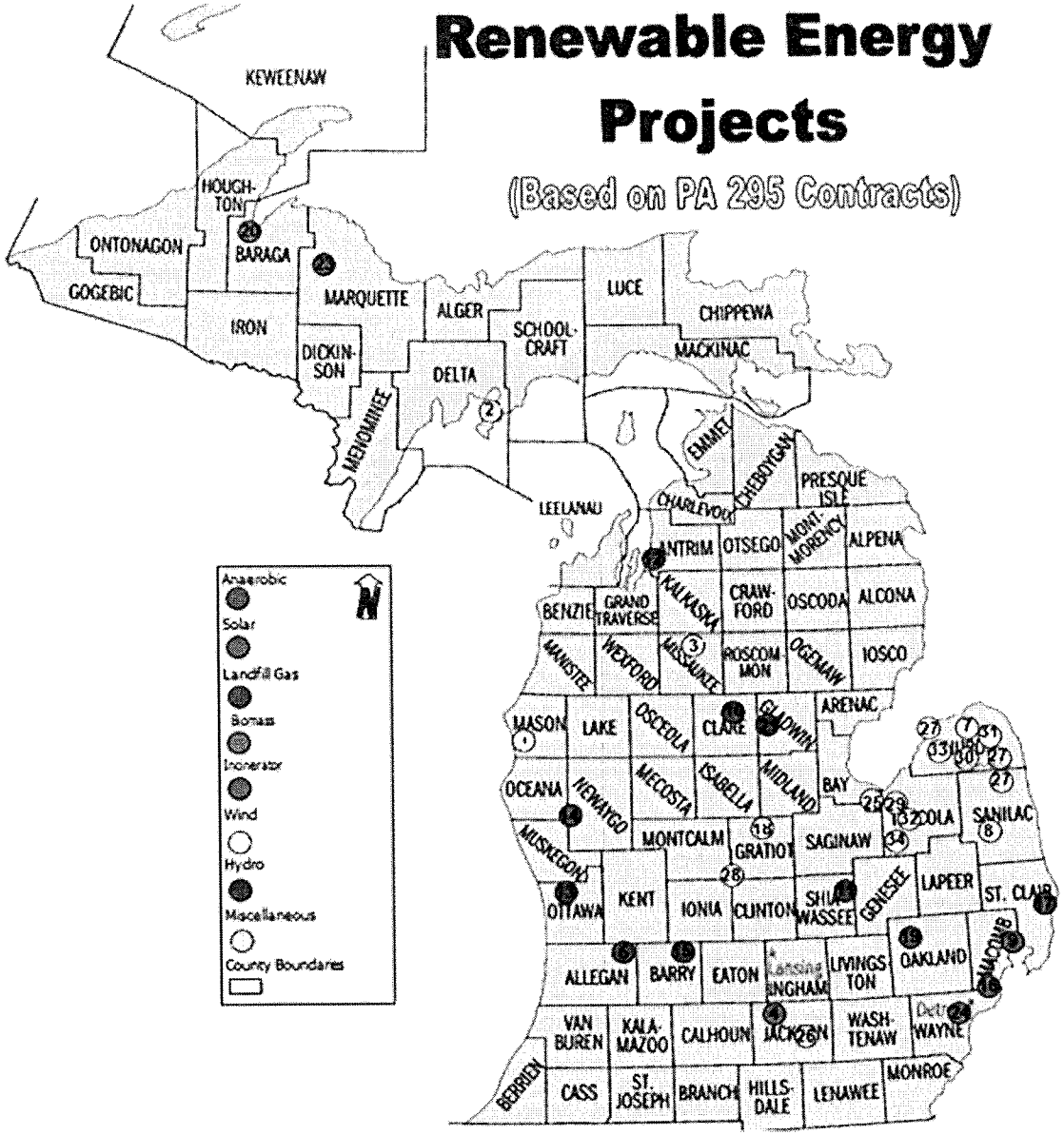
- Incremental cost of renewable energy is recovered via a surcharge.
- Section 45 of 2008 PA 295 caps renewable energy surcharges by customer class:
  - $3.00 per month per residential meter
  - $16.58 per month per commercial secondary meter
  - $187.50 per month per commercial primary or industrial meter
- 7 electric providers have residential renewable energy surcharges.
- 52 electric providers have no residential renewable energy surcharges.
- Consumers Energy's surcharges were eliminated in July 2014
- DTE Electric's residential surcharge decreased from $3 to $0.43 in January 2014

Levelized Cost of Renewable Energy Contracts Over Time
($ per MWh)

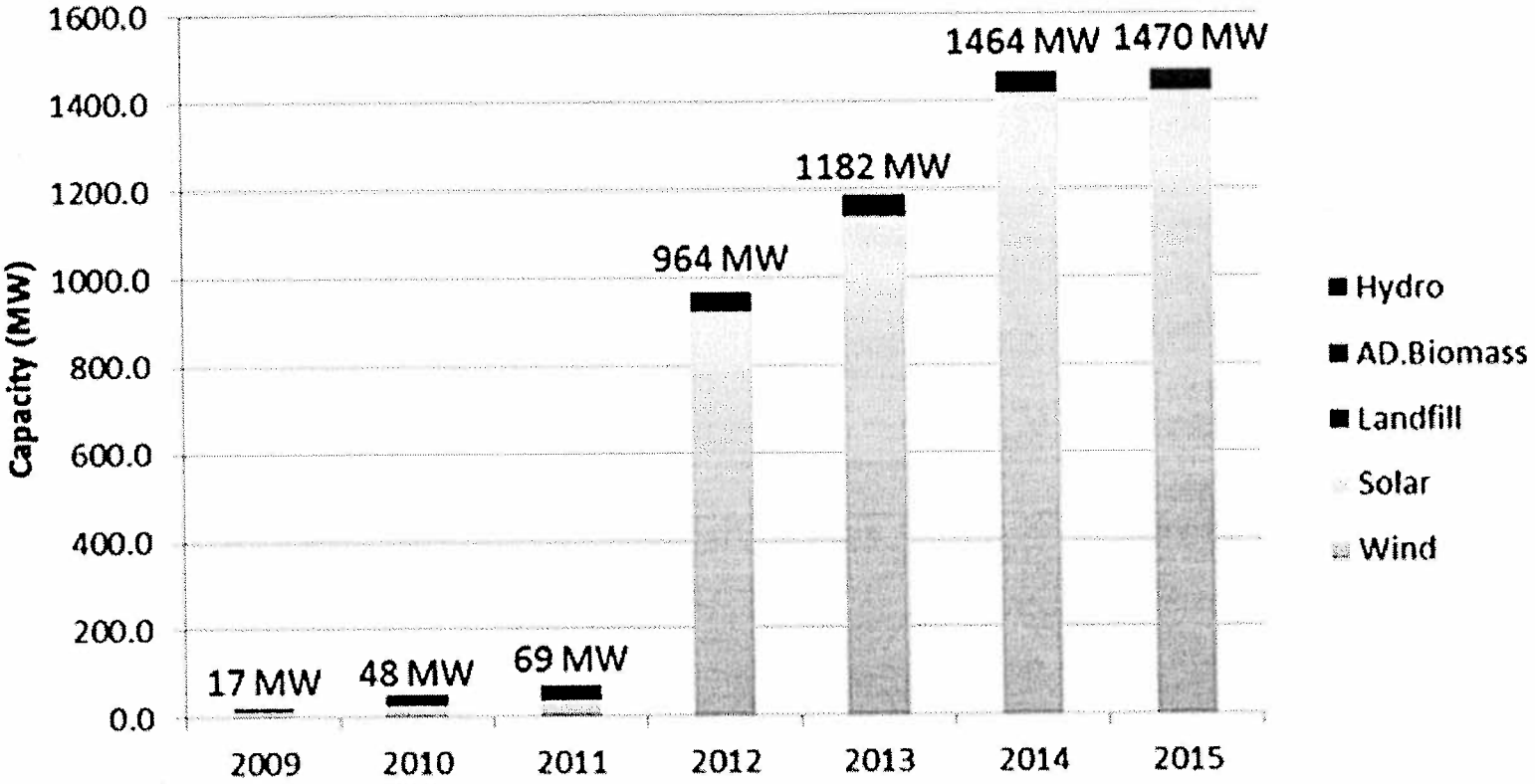


Renewable Energy Projects

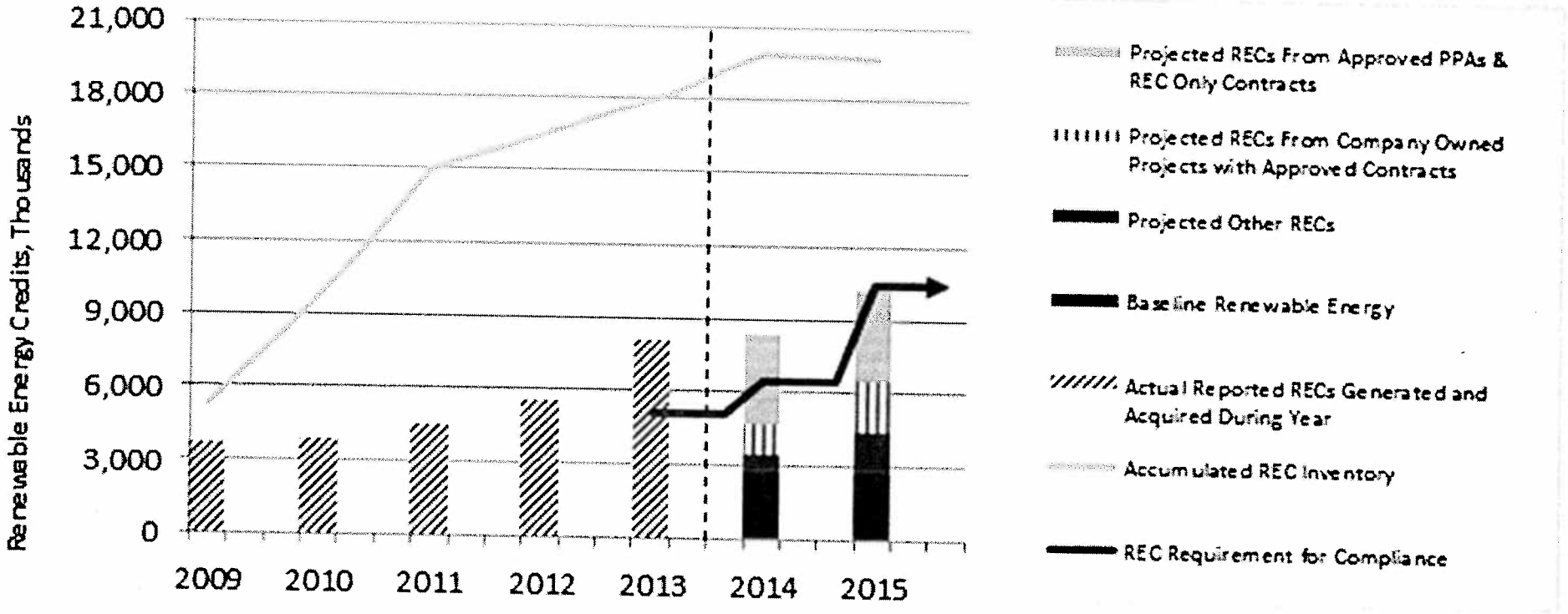
(Based on PA 295 Contracts)



Cumulative New PA 295 Renewable Energy Capacity by Commercial Operation Date



Status of MI Renewable Energy Standard



Renewable Energy Standard Results

- The Renewable Energy Standard has resulted in over 1,400 MW of new renewable energy in Michigan.
- Renewable energy costs are less than initially expected.
- All electric providers are expected to meet the 10% standard.

Questions?

michigan.gov/mpsc